

BAXTER COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2007

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Baxter Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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**Board of Education
(Before September 2006 Election)**

Curt Hansen	President	2008
Joyce Christianson	Vice President	2007
Randy Fuchs	Board Member	2006
John Robinson	Board Member	2006
Colette Kunkel	Board Member	2007

**Board of Education
(After September 2006 Election)**

Curt Hansen	President	2008
Joyce Christianson	Vice President	2007
Randy Fuchs	Board Member	2009
Jon Northrup	Board Member	2009
Colette Kunkel	Board Member	2007

School Officials

Neil K. Seales	Superintendent	2007
Susie Bormann	District Secretary/Treasurer and Business Manager(Resigned)	2006
Sandi Tyler	District Secretary/Treasurer and Business Manager	2007

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Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Baxter Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Baxter Community School District, Baxter, Iowa as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Baxter Community School District at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 17, 2008 on our consideration of the Baxter Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 37 through 38 are not required parts of the basic financial statements, but are supplementary

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information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Baxter Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2006 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Another auditor previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2005 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Nolte, Cornman & Johnson PC
NOLTE, CORNMAN & JOHNSON, P.C.

March 17, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

Baxter Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$3,096,346 in fiscal 2006 to \$3,272,329 in fiscal 2007, while General Fund expenditures increased from \$2,995,411 in fiscal 2006 to \$3,371,318 in fiscal 2007. This resulted in a decrease in the District's General Fund balance from \$585,089 in fiscal 2006 to a balance of \$486,100 in fiscal 2007.
- The increase in General Fund revenues was attributable to an increase in property tax and state grant revenues during fiscal 2007. The increase in expenditures was due primarily to increases in salaries and benefits for District employees during fiscal 2007.
- During fiscal year 2007, the District received the final \$100,000 of the Iowa Demonstration Grant for aiding in paying for construction costs of the new gymnasium and classroom areas to the high school.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Baxter Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Baxter Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Baxter Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Baxter Community School District Annual Financial Report

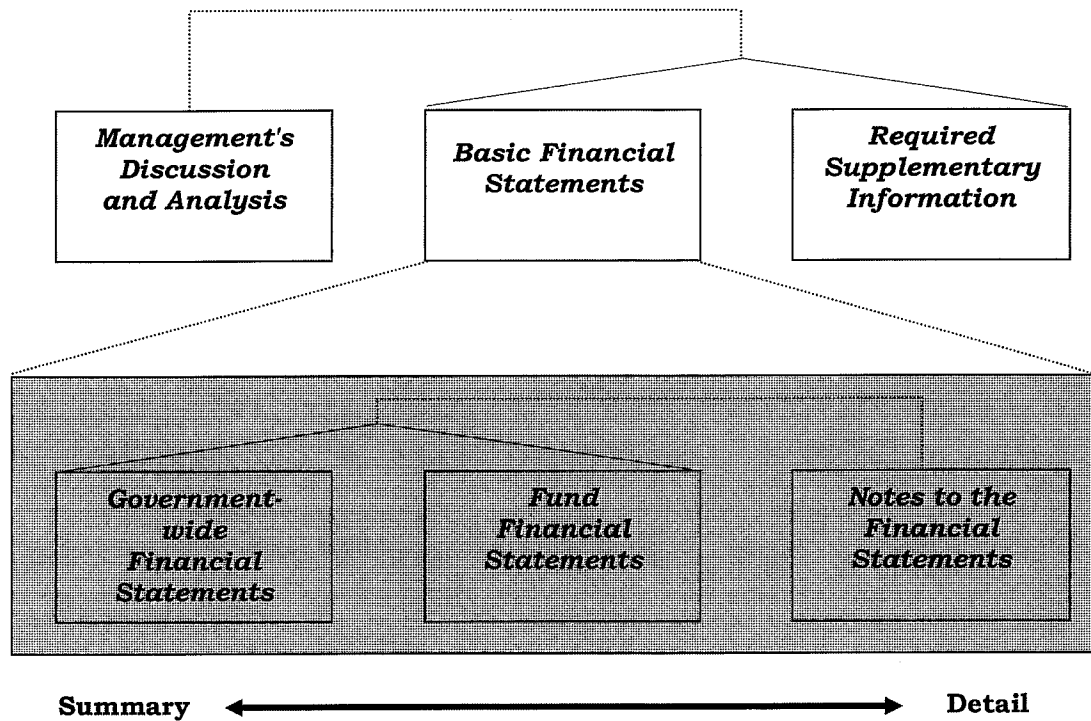


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2

Major Features of the Government-Wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund, and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

- 3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. These funds include the Private-Purpose Trust Fund.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2007 compared to June 30, 2006.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Current and other assets	\$ 2,198,885	2,704,045	21,562	23,700	2,220,447	2,727,745	-18.60%
Capital assets	6,797,634	6,558,431	41,773	2,250	6,839,407	6,560,681	4.25%
Total assets	8,996,519	9,262,476	63,335	25,950	9,059,854	9,288,426	-2.46%
Long-term obligations	3,938,375	4,128,772	0	0	3,938,375	4,128,772	-4.61%
Other liabilities	1,183,070	1,995,278	2,699	3,541	1,185,769	1,998,819	-40.68%
Total liabilities	5,121,445	6,124,050	2,699	3,541	5,124,144	6,127,591	-16.38%
Net assets:							
Invested in capital assets, net of related debt	3,007,176	2,524,625	41,773	2,250	3,048,949	2,526,875	20.66%
Restricted	431,880	104,255	0	0	431,880	104,255	314.25%
Unrestricted	436,018	509,546	18,863	20,159	454,881	529,705	-14.13%
Total net assets	\$ 3,875,074	3,138,426	60,636	22,409	3,935,710	3,160,835	24.51%

The District's combined net assets increased by 24.51%, or \$774,875, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased by \$327,625, or 314.25% over the prior year. The increase was due to the reclassification of the Capital Projects fund balance.

Unrestricted net assets – the part of net assets that can be used to finance day –to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased by \$74,824, or 14.13%. This decrease was due to the decrease in the General Fund balance.

Figure A-4 shows the changes in net assets for the year ended June 30, 2007 compared to June 30, 2006.

Figure A-4 Changes of Net Assets							
	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Revenues:							
Program revenues:							
Charges for services	\$ 489,451	455,372	88,286	87,494	577,737	542,866	6.42%
Operating grants and contributions and restricted interest	451,527	335,175	56,018	52,120	507,545	387,295	31.05%
Capital grants and contributions and restricted interest	110,000	400,000	0	0	110,000	400,000	-72.50%
General revenues:							
Property tax	1,178,768	1,095,120	0	0	1,178,768	1,095,120	7.64%
Income surtax	145,709	143,067	0	0	145,709	143,067	1.85%
Local option sales tax	214,032	173,535	0	0	214,032	173,535	23.34%
Unrestricted state grants	1,513,726	1,469,997	0	0	1,513,726	1,469,997	2.97%
Unrestricted investment earnings	25,632	52,315	189	165	25,821	52,480	-50.80%
Other general revenues	406,671	128,526	0	0	406,671	128,526	216.41%
Transfers	(42,356)	0	43,615	0	1,259	0	100.00%
Total revenues	4,493,160	4,253,107	188,108	139,779	4,681,268	4,392,886	6.56%
Program expenses:							
Governmental activities:							
Instruction	2,130,304	1,868,994	0	0	2,130,304	1,868,994	13.98%
Support services	1,188,969	1,314,004	1,669	0	1,190,638	1,314,004	-9.39%
Non-instructional programs	0	0	148,212	132,002	148,212	132,002	12.28%
Other expenditures	437,239	422,748	0	0	437,239	422,748	3.43%
Total expenses	3,756,512	3,605,746	149,881	132,002	3,906,393	3,737,748	4.51%
Change in net assets	736,648	647,361	38,227	7,777	774,875	655,138	18.28%
Net assets beginning of year	3,138,426	2,491,065	22,409	14,632	3,160,835	2,505,697	26.15%
Net assets end of year	\$ 3,875,074	3,138,426	60,636	22,409	3,935,710	3,160,835	24.51%

In fiscal 2007, property tax, income surtax, local option sales and services tax and unrestricted state grants account for 67.93% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 76.81% of the revenue from business type activities.

The District's total revenues were approximately \$4.68 million of which \$4.49 million was for governmental activities and less than \$0.19 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 6.56% increase in revenues and a 4.51% increase in expenses. Property tax increased \$83,648 and unrestricted state grants increased \$43,729 to fund increases in expenditures. The increase in expenses related to increases in the negotiated salary and benefits.

Governmental Activities

Revenues, net of transfers for governmental activities were \$4,493,160 and expenses were \$3,756,512.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2007	2006	Change 2006-07	2007	2006	Change 2006-07
Instruction	\$ 2,130,304	1,868,997	13.98%	1,300,958	1,183,372	9.94%
Support services	1,188,969	1,314,004	-9.52%	1,078,851	1,312,085	-17.78%
Other expenses	437,239	422,748	3.43%	325,725	(80,258)	-505.85%
Totals	\$ 3,756,512	3,605,749	4.18%	2,705,534	2,415,199	12.02%

- The cost financed by users of the District's programs was \$489,451.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$561,527.
- The net cost of governmental activities was financed with \$1,178,768 in property tax, \$145,709 in income surtax, \$214,032 in local option sales and services tax, \$1,513,726 in unrestricted state grants, \$25,632 in unrestricted investment earnings and \$406,671 in other general revenues.

Business-Type Activities

Revenues and transfers of the District's business-type activities were \$188,108 and expenses were \$149,881. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Baxter Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$878,832, above last year's ending fund balances of a \$568,436.

Governmental Fund Highlights

- The District's decrease in General Fund financial position from \$585,089 to \$486,100 is the product of many factors. Increases in local tax and state grant revenues during the year resulted in an increase in revenues. The increase in expenditures was more than the increase in revenues resulting in a net decrease of \$98,989.
- The Capital Projects Fund balance increased from a deficit \$92,921 in fiscal 2006 to a positive \$357,597 in fiscal 2007. This significant increase was a result of increased local option sales and services tax and construction refunds that came from the completion of capital construction related to the addition to the high school.

-
- The Debt Service Fund balance increased from a deficit \$37,683 in fiscal 2006 to a deficit \$31,947 in fiscal 2007. This was due to the normally scheduled debt repayments transactions.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$22,409 at June 30, 2006 to \$60,636 at June 30, 2007, representing an increase of 170.59%. The Capital Projects Fund purchased nutrition equipment during the year of \$43,615.

BUDGETARY HIGHLIGHTS

The District's revenues were \$417,667 more than budgeted revenues, a variance of 9.81%. The most significant variance resulted from the District receiving more in local source revenues than originally anticipated.

Originally, total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The district then manages or controls general Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the support services function due to the timing of expenditures at year-end without sufficient time to amend the certified budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the District had invested \$6,839,407, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 4.25% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$184,861.

The original cost of the District's capital assets was \$8,714,675. Governmental funds account for \$8,654,748 with the remaining of \$59,927 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the buildings category. The District's buildings totaled \$1,876,391 at June 30, 2006, compared to \$6,535,722 reported at June 30, 2007. This increase resulted from the completion of construction for the addition to the high school.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Land	\$ 75,602	75,602	0	0	75,602	75,602	0.00%
Construction in progress	0	4,467,772	0	0	0	4,467,772	-100.00%
Buildings	6,535,722	1,876,391	0	0	6,535,722	1,876,391	248.31%
Land improvements	66,928	74,609	0	0	66,928	74,609	-10.30%
Machinery and equipment	119,382	64,057	41,773	2,250	161,155	66,307	143.04%
Total	\$ 6,797,634	6,558,431	41,773	2,250	6,839,407	6,560,681	4.25%

Long-Term Debt

At June 30, 2007, the District had \$3,938,375 in general obligation, revenue obligation and other long-term debt outstanding. This represents a decrease of 4.61% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had total outstanding General Obligation Bonds payable of \$2,925,000 at June 30, 2007.

The District had total outstanding Revenue Bonds payable of \$820,000 at June 30, 2008.

The District had a bus lease payable from the Special Revenue – Physical Plant and Equipment Levy Fund of \$45,458 at June 30, 2007.

The District had total outstanding Early Retirement payable from the Special Revenue – Management Levy Fund of \$97,998 at June 30, 2007.

The District had total outstanding compensated absences payable from the General Fund of \$49,919 at June 30, 2007.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2007	2006	2006-07
General Obligation Bonds	\$ 2,925,000	3,075,000	-4.88%
Revenue Bonds	820,000	920,000	-10.87%
Bus Lease	45,458	0	100.00%
Capital Loan Notes	0	21,926	-100.00%
Early Retirement	97,998	81,421	20.36%
Compensated Absences	49,919	30,425	64.07%
Total	\$ 3,938,375	4,128,772	-4.61%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

-
- District enrollment increased in fiscal year 2007 by 10.2 students. Under Iowa's school funding formula, District funding is highly dependant upon District enrollments. Future enrollment stability is a critical element in maintaining a sound financial foundation for the District.
 - Low allowable growth over several years is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sandi Tyler, Board Secretary, Baxter Community School District, 202 East State Street, Baxter, Iowa, 50028.

BASIC FINANCIAL STATEMENTS

BAXTER COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2007

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments	\$ 661,627	19,351	680,978
Receivables:			
Property tax:			
Delinquent	14,064	0	14,064
Succeeding year	1,131,522	0	1,131,522
Income surtax	127,602	0	127,602
Accounts	129,107	0	129,107
Due from other governments	87,180	0	87,180
Inventories	0	2,211	2,211
Bond discounts and bond issue costs	47,783	0	47,783
Capital assets, net of accumulated depreciation(Note 5)	6,797,634	41,773	6,839,407
TOTAL ASSETS	8,996,519	63,335	9,059,854
LIABILITIES			
Accounts payable	2,158	0	2,158
Salaries and benefits payable	10,988	0	10,988
Interest payable	38,402	0	38,402
Deferred revenue:			
Succeeding year property tax	1,131,522	0	1,131,522
Unearned revenue	0	2,699	2,699
Long-term liabilities(Note 6):			
Portion due within one year:			
General obligation bonds payable	150,000	0	150,000
Revenue bonds payable	105,000	0	105,000
Bus lease payable	10,439	0	10,439
Early retirement payable	26,198	0	26,198
Compensated absences payable	49,919	0	49,919
Portion due after one year:			
General obligation bonds payable	2,775,000	0	2,775,000
Revenue bonds payable	715,000	0	715,000
Bus lease payable	35,019	0	35,019
Early retirement payable	71,800	0	71,800
TOTAL LIABILITIES	5,121,445	2,699	5,124,144
NET ASSETS			
Invested in capital assets, net of related debt	3,007,176	41,773	3,048,949
Restricted for:			
Debt service	110,000	0	110,000
Talented and gifted	2,241	0	2,241
Additional teacher contract day	6,840	0	6,840
Capital projects	247,597	0	247,597
Physical plant and equipment levy	12,831	0	12,831
Other special revenue purposes	52,371	0	52,371
Unrestricted	436,018	18,863	454,881
TOTAL NET ASSETS	\$ 3,875,074	60,636	3,935,710

SEE NOTES TO FINANCIAL STATEMENTS.

BAXTER COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets	
	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest		Govern- mental Activities	Business- Type Activities
Expenses						Total
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	\$ 1,392,537	353,779	321,484	0	(717,274)	0 (717,274)
Special instruction	312,220	0	18,529	0	(293,691)	0 (293,691)
Other instruction	425,547	135,554	0	0	(289,993)	0 (289,993)
	<u>2,130,304</u>	<u>489,333</u>	<u>340,013</u>	<u>0</u>	<u>(1,300,958)</u>	<u>0 (1,300,958)</u>
Support services:						
Student services	132,027	0	0	0	(132,027)	0 (132,027)
Instructional staff services	115,979	0	0	0	(115,979)	0 (115,979)
Administration services	570,269	0	0	0	(570,269)	0 (570,269)
Operation and maintenance of plant services	183,323	0	0	110,000	(73,323)	0 (73,323)
Transportation services	187,371	118	0	0	(187,253)	0 (187,253)
	<u>1,188,969</u>	<u>118</u>	<u>0</u>	<u>110,000</u>	<u>(1,078,851)</u>	<u>0 (1,078,851)</u>
Other expenditures:						
Long-term debt interest	169,689	0	0	0	(169,689)	0 (169,689)
AEA flowthrough	111,514	0	111,514	0	0	0 0
Depreciation(unallocated) *	156,036	0	0	0	(156,036)	0 (156,036)
	<u>437,239</u>	<u>0</u>	<u>111,514</u>	<u>0</u>	<u>(325,725)</u>	<u>0 (325,725)</u>
Total governmental activities	3,756,512	489,451	451,527	110,000	(2,705,534)	0 (2,705,534)
Business-Type activities:						
Support services:						
Administration services	571	0	0	0	0	(571) (571)
Operation and maintenance of plant services	1,098	0	0	0	0	(1,098) (1,098)
Non-instructional programs:						
Nutrition services	148,212	88,286	56,018	0	0	(3,908) (3,908)
Total business-type activities	<u>149,881</u>	<u>88,286</u>	<u>56,018</u>	<u>0</u>	<u>0</u>	<u>(5,577) (5,577)</u>
Total	\$ 3,906,393	577,737	507,545	110,000	(2,705,534)	(5,577) (2,711,111)
General Revenues and Transfers:						
General Revenues:						
Property tax for:						
General purposes				\$	848,952	0 848,952
Debt Service					282,938	0 282,938
Capital outlay					46,878	0 46,878
Income surtax					145,709	0 145,709
Local option sales and services tax					214,032	0 214,032
Unrestricted state grants					1,513,726	0 1,513,726
Unrestricted investment earnings					25,632	189 25,821
Other general revenues					406,671	0 406,671
Transfers					(42,356)	43,615 1,259
Total general revenues and transfers					<u>3,442,182</u>	<u>43,804 3,485,986</u>
Changes in net assets					736,648	38,227 774,875
Net assets beginning of year					3,138,426	22,409 3,160,835
Net assets end of year				\$	<u>3,875,074</u>	<u>60,636 3,935,710</u>

* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO FINANCIAL STATEMENTS.

BAXTER COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	General	Capital Projects	Debt Service	Nonmajor Special Revenue Funds	Total
ASSETS					
Cash and pooled investments	\$ 352,915	278,972	0	65,204	697,091
Receivables:					
Property tax					
Delinquent	8,835	0	3,517	1,712	14,064
Succeeding year	723,926	0	273,040	134,556	1,131,522
Income surtax	106,335	0	0	21,267	127,602
Accounts	127,889	0	0	1,218	129,107
Interfund	0	10,000	0	0	10,000
Due from other governments	18,555	68,625	0	0	87,180
TOTAL ASSETS	\$ 1,338,455	357,597	276,557	223,957	2,196,566
LIABILITIES AND FUND BALANCES					
Liabilities:					
Excess of warrants issued over bank balance	\$ 0	0	35,464	0	35,464
Interfund payable	10,000	0	0	0	10,000
Accounts payable	1,106	0	0	1,052	2,158
Salaries and benefits payable	10,988	0	0	0	10,988
Deferred revenue:					
Succeeding year property tax	723,926	0	273,040	134,556	1,131,522
Income surtax	106,335	0	0	21,267	127,602
Total liabilities	852,355	0	308,504	156,875	1,317,734
Fund balances:					
Reserved for:					
Debt service	0	110,000	0	0	110,000
Talented and gifted	2,241	0	0	0	2,241
Additional teacher contract day	6,840	0	0	0	6,840
Unreserved	477,019	247,597	(31,947)	67,082	759,751
Total fund balances	486,100	357,597	(31,947)	67,082	878,832
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,338,455	357,597	276,557	223,957	2,196,566

SEE NOTES TO FINANCIAL STATEMENTS.

BAXTER COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2007

Total fund balances of governmental funds (page 16)	\$ 878,832
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	6,797,634
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.	127,602
Bond issue costs and bond discounts are an expense when incurred in the governmental funds, but are capitalized and amortized over the life of the bonds for the government-wide financial statements.	47,783
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(38,402)
Long-term liabilities, including general obligation bonds, revenue bonds, bus lease, early retirement and compensated absences are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(3,938,375)
Net assets of governmental activites (page 14)	<u>\$ 3,875,074</u>

SEE NOTES TO FINANCIAL STATEMENTS.

BAXTER COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007

	General	Capital Projects	Debt Service	Nonmajor Special Revenue Funds	Total
REVENUES:					
Local sources:					
Local tax	\$ 874,133	214,032	282,938	167,406	1,538,509
Tuition	342,593	0	0	0	342,593
Other	112,251	362,538	868	135,380	611,037
Intermediate sources	5,267	0	0	0	5,267
State sources	1,778,203	0	0	25	1,778,228
Federal sources	158,869	100,000	0	0	258,869
Total revenues	3,271,316	676,570	283,806	302,811	4,534,503
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	1,343,232	0	0	31,071	1,374,303
Special instruction	312,220	0	0	0	312,220
Other instruction	271,631	0	0	153,916	425,547
	1,927,083	0	0	184,987	2,112,070
Support services:					
Student services	131,502	0	0	0	131,502
Instructional staff services	115,979	0	0	0	115,979
Administration services	536,826	13,708	0	0	550,534
Operation and maintenance of plant services	389,052	0	0	47,383	436,435
Transportation services	159,362	0	0	67,054	226,416
	1,332,721	13,708	0	114,437	1,460,866
Other expenditures:					
Facilities acquisitions	0	76,469	0	72,651	149,120
Long-term debt:					
Principal	0	0	283,448	0	283,448
Interest and fiscal charges	0	0	166,341	0	166,341
AEA flowthrough	111,514	0	0	0	111,514
	111,514	76,469	449,789	72,651	710,423
Total expenditures	3,371,318	90,177	449,789	372,075	4,283,359
Excess(deficiency) of revenues over(under) expenditures	(100,002)	586,393	(165,983)	(69,264)	251,144
OTHER FINANCING SOURCES(USES):					
Proceeds from disposal of property	1,013	0	0	0	1,013
Proceeds from bus lease	0	0	0	56,980	56,980
Transfer in	0	0	171,719	1,259	172,978
Transfer out	0	(135,875)	0	(35,844)	(171,719)
Total other financing sources(uses)	1,013	(135,875)	171,719	22,395	59,252
Net change in fund balances	(98,989)	450,518	5,736	(46,869)	310,396
Fund balance beginning of year	585,089	(92,921)	(37,683)	113,951	568,436
Fund balance end of year	\$ 486,100	357,597	(31,947)	67,082	878,832

SEE NOTES TO FINANCIAL STATEMENTS.

BAXTER COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2007

Net change in fund balances - total governmental funds (page 18) \$ 310,396

*Amounts reported for governmental activities in the
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Depreciation expense exceeded capital outlay expenditures in the current year are as follows:

Expenditures for capital assets	\$ 419,972	
Depreciation expense	(180,769)	239,203

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year issues exceeded repayments, as follows:

Issued	(56,980)	
Repaid	283,448	226,468

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

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Bond issue costs and bond discounts are reported as expenses in the fund financial statements, but are capitalized and amortized over the life of the bonds for the government-wide financial statements.

(3,752)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore are not reported as expenditures in the governmental funds, as follows:

Early Retirement	(16,577)	
Compensated Absences	(19,494)	(36,071)

Changes in net assets of governmental activities (page 15) \$ 736,648

SEE NOTES TO FINANCIAL STATEMENTS.

BAXTER COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2007

	School Nutrition
ASSETS	
Cash and pooled investments	\$ 19,351
Inventories	2,211
Capital assets, net of accumulated depreciation (Note 5)	41,773
TOTAL ASSETS	<u>63,335</u>
LIABILITIES	
Unearned revenue	2,699
TOTAL LIABILITIES	<u>2,699</u>
NET ASSETS	
Invested in capital assets, net of related debt	41,773
Unrestricted	18,863
TOTAL NET ASSETS	<u>\$ 60,636</u>

SEE NOTES TO FINANCIAL STATEMENTS.

BAXTER COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2007

	<u>School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 88,286
TOTAL OPERATING REVENUES	<u>88,286</u>
OPERATING EXPENSES:	
Support services:	
Administration services:	
Other	<u>571</u>
Operation and maintenance of plant services:	
Services	<u>1,098</u>
Total support services	<u>1,669</u>
Non-instructional programs:	
Food service operations:	
Salaries	50,820
Benefits	16,920
Services	18
Supplies	76,362
Depreciation	4,092
Total non-instructional programs	<u>148,212</u>
TOTAL OPERATING EXPENSES	<u>149,881</u>
OPERATING LOSS	(61,595)
NON-OPERATING REVENUES:	
State sources	2,209
Federal sources	53,809
Interest income	189
TOTAL NON-OPERATING REVENUES	<u>56,207</u>
Change in net assets before other financing sources:	(5,388)
Other financing sources:	
Capital contributions	<u>43,615</u>
Change in net assets	38,227
Net assets beginning of year	<u>22,409</u>
Net assets end of year	<u>\$ 60,636</u>

SEE NOTES TO FINANCIAL STATEMENTS.

BAXTER COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2007

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 87,444
Cash payments to employees for services	(67,740)
Cash payments to suppliers for goods or services	(71,167)
Net cash used in operating activities	<u>(51,463)</u>
Cash flows from non-capital financing activities:	
State grants received	2,209
Federal grants received	47,034
Net cash provided by non-capital financing activities	<u>49,243</u>
Cash flows from investing activities:	
Interest on investments	189
Net cash provided by investing activities	<u>189</u>
Net decrease in cash and cash equivalents	(2,031)
Cash and cash equivalents at beginning of year	<u>21,382</u>
Cash and cash equivalents at end of year	<u>\$ 19,351</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (61,595)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	6,775
Depreciation	4,092
Decrease in inventories	107
Decrease in unearned revenue	(842)
Net cash used in operating activities	<u>\$ (51,463)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u>\$ 19,351</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2007, the District received Federal commodities valued at \$6,775.

During the year ended June 30, 2007, the District received capital contributions valued at \$43,615 from the Capital Projects Fund.

SEE NOTES TO FINANCIAL STATEMENTS.

BAXTER COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2007

	<u>Private Purpose</u>
	<u>Trust</u>
	<u>Scholarship</u>
ASSETS	
Cash and pooled investments	\$ 30,433
LIABILITIES	<u>0</u>
NET ASSETS	
Reserved for scholarships	<u>\$ 30,433</u>

SEE NOTES TO FINANCIAL STATEMENTS.

BAXTER COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2007

	<u>Private Purpose</u>
	<u>Trust</u>
	<u>Scholarship</u>
Additions:	
Local sources:	
Gifts and contributions	\$ 28,916
Interest income	2,776
Total additions	<u> 31,692</u>
Total deletions	<u> 0</u>
Change in net assets before other financing uses	31,692
Other financing uses:	
Transfer out	<u> (1,259)</u>
Change in net assets	30,433
Net assets beginning of year	<u> 0</u>
Net assets end of year	<u><u> \$ 30,433</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

BAXTER COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

(1) Summary of Significant Accounting Policies

The Baxter Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Baxter, Iowa, and the predominate agricultural territory in Jasper and Marshall Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Baxter Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Baxter Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Jasper and Marshall Counties Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's long-term debt.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary fund includes the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board

Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on

January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 0
Buildings	5,000
Land improvements	5,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	5,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	25-50 years
Land improvements	20-30 years
Machinery and equipment	5-20 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period

or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2007. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, expenditures in the support services function exceeded the amount budgeted.

(2) **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2007 were entirely covered by Federal depository insurance or by the State Sinking Funds in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and

instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2007.

(3) Transfers

The detail of transfers for the year ended June 30, 2007 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Special Revenue: Physical Plant and Equipment Levy	\$ 35,844
Special Revenue: Student Activity	Private Purpose Trust	1,259
Debt Service	Capital Projects	135,875
Total		<u>\$ 172,978</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Interfund Receivables and Payables

Individual interfund receivable and payable balances at June 30, 2007 are as follows:

Receivable Fund	Payable Fund	Amount
Capital Projects	General	<u>\$ 10,000</u>

The General fund is repaying the Capital Projects fund for a donation that was received during the year. The balance will be repaid by June 30, 2008.

(5) Capital Assets

Capital assets activity for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 75,602	0	0	75,602
Construction in progress	4,467,772	261,926	4,729,698	0
Total capital assets not being depreciated	4,543,374	261,926	4,729,698	75,602
Capital assets being depreciated:				
Buildings	2,872,423	4,807,686	0	7,680,109
Land improvements	294,445	0	0	294,445
Machinery and equipment	590,784	80,058	66,250	604,592
Total capital assets being depreciated	3,757,652	4,887,744	66,250	8,579,146
Less accumulated depreciation for:				
Buildings	996,032	148,355	0	1,144,387
Land improvements	219,836	7,681	0	227,517
Machinery and equipment	526,727	24,733	66,250	485,210
Total accumulated depreciation	1,742,595	180,769	66,250	1,857,114
Total capital assets being depreciated, net	2,015,057	4,706,975	0	6,722,032
Governmental activities capital assets, net	\$ 6,558,431	4,968,901	4,729,698	6,797,634
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 16,312	43,615	0	59,927
Less accumulated depreciation	14,062	4,092	0	18,154
Business-type activities capital assets, net	\$ 2,250	39,523	0	41,773

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 1,657
Support services:	
Student	525
Operation and maintenance of plant	4,616
Transportation	17,935
	<u>24,733</u>
Unallocated depreciation	<u>156,036</u>
Total governmental activities depreciation expense	<u>\$ 180,769</u>
Business-type activities:	
Food services	\$ 4,092
Total business-type activities depreciation expense	<u>\$ 4,092</u>

(6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General Obligation Bonds	\$ 3,075,000	0	150,000	2,925,000	150,000
Revenue Bonds	920,000	0	100,000	820,000	105,000
Capital Loan Notes	21,926	0	21,926	0	0
Bus Lease	0	56,980	11,522	45,458	10,439
Early Retirement	81,421	32,088	15,511	97,998	26,198
Compensated Absences	30,425	49,919	30,425	49,919	49,919
	<u>\$ 4,128,772</u>	<u>138,987</u>	<u>329,384</u>	<u>3,938,375</u>	<u>341,556</u>

General Obligation Bonds Payable

Details of the District's June 30, 2007 general obligation bonded debt is as follows:

Year Ending June 30,	Bond issue of July 1, 2001			Bond issue of May 1, 2003		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest
2008	4.25 % \$	0	75,095	2.40 % \$	150,000	36,245
2009	4.25	0	75,095	2.70	160,000	32,195
2010	4.25	0	75,095	3.20	165,000	27,395
2011	4.25	0	75,095	3.40	170,000	22,115
2012	4.25	0	75,095	3.60	180,000	16,335
2013-2017	4.25-4.60	600,000	405,112	3.80-4.00	275,000	13,410
2018-2023	4.70-5.05	800,000	163,205		0	0
2024	5.05	165,000	8,333		0	0
Total		<u>\$ 1,565,000</u>	<u>952,125</u>		<u>\$ 1,100,000</u>	<u>147,695</u>

Year Ending June 30,	Bond issue of June 1, 2006			Total		
	Interest Rates	Principal	Interest	Principal	Interest	Total
2008	4.50 % \$	0	11,700	\$ 150,000	123,040	273,040
2009	4.50	0	11,700	160,000	118,990	278,990
2010	4.50	0	11,700	165,000	114,190	279,190
2011	4.50	0	11,700	170,000	108,910	278,910
2012	4.50	0	11,700	180,000	103,130	283,130
2013-2017	4.50	260,000	44,102	1,135,000	462,624	1,597,624
2018-2023		0	0	800,000	163,205	963,205
2024		0	0	165,000	8,333	173,333
Total		<u>\$ 260,000</u>	<u>102,602</u>	<u>\$ 2,925,000</u>	<u>1,202,422</u>	<u>4,127,422</u>

Revenue Bonds Payable

Details of the District's June 30, 2007 local option sales and services tax revenue bonded indebtedness is as follows:

Year		Bond issue of July 1, 2004			
Ending	Interest				
June 30,	Rates	Principal	Interest	Total	
2008	3.30	% \$ 105,000	32,125	137,125	
2009	3.60	110,000	28,660	138,660	
2010	3.75	110,000	24,700	134,700	
2011	4.00	115,000	20,575	135,575	
2012	4.10	120,000	15,975	135,975	
2013	4.20	125,000	11,055	136,055	
2014	4.30	135,000	5,805	140,805	
Total		\$ 820,000	138,895	958,895	

The local option sales and services tax revenue bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the local option sales and services tax revenues received by the District. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District.

The resolution providing for the issuance of the local option sales and services tax revenue bonds includes the following provisions:

- a) \$110,000 of the proceeds from the issuance of the revenue bonds shall be deposited to the Reserve Account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the Sinking Account. The balance of the proceeds shall be deposited to the Project Account.
- b) All proceeds from the local option sales and services tax shall be placed in a Revenue Account.
- c) Monies in the Revenue Account shall be disbursed to make deposits into a Sinking Account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the Revenue Account after the required transfer to the Sinking Account may be transferred to the Project Account to be used for any lawful purpose.

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and employees must have completed fifteen years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. Early retirement incentives include a cash payment based on a percentage of current salary and the payment by the District of up to \$200 per month for health insurance premiums. At June 30, 2007, the District had obligations to six participants with a total liability of \$97,998. Early retirement benefits paid during the year ended June 30, 2007 totaled \$15,511. A liability has been recorded in the government-wide financial statements representing the District's commitment to fund non-current early retirement.

Bus Lease Payable

On October 15, 2006, the District entered into an agreement to lease a school bus for \$56,980 with Kansas State Bank. The remaining balance of the notes will be paid from the Special Revenue, Physical Plant and Equipment Levy Fund. Details of the District's June 30, 2007 bus lease indebtedness is as follows:

Year Ending June 30,	Bus lease of October 15, 2006				
	Interest Rates	Principal	Interest	Total	
2008	5.69	% \$ 10,439	2,587	13,026	
2009	5.69	11,033	1,993	13,026	
2010	5.69	11,661	1,365	13,026	
2011	5.69	12,325	701	13,026	
Total		\$ 45,458	6,646	52,104	

(7) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$120,295, \$110,974 and \$106,383, respectively, equal to the required contributions for each year.

(8) Risk Management

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$111,514 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Deficit Fund Balances

At June 30, 2007, there was a deficit fund balance in the Debt Service Fund of \$31,947.

(11) Budget Overexpenditure

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2007, expenditures in the support services function exceeded the amount budgeted.

REQUIRED SUPPLEMENTARY INFORMATION

BAXTER COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUND
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2007

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 2,492,139	88,475	2,580,614	2,007,605	2,007,605	573,009
Intermediate sources	5,267	0	0	95,000	95,000	(95,000)
State sources	1,778,228	2,209	1,780,437	1,975,957	1,975,957	(195,520)
Federal sources	258,869	53,809	312,678	177,500	177,500	135,178
Total revenues	4,534,503	144,493	4,673,729	4,256,062	4,256,062	417,667
Expenditures:						
Instruction	2,112,070	0	2,112,070	2,430,000	2,430,000	317,930
Support services	1,460,866	1,669	1,462,535	1,345,100	1,345,100	(117,435)
Non-instructional programs	0	148,212	148,212	179,850	179,850	31,638
Other expenditures	710,423	0	710,423	1,901,672	1,901,672	1,191,249
Total expenditures	4,283,359	149,881	4,433,240	5,856,622	5,856,622	1,423,382
Excess(deficiency) of revenues over(under) expenditures	251,144	(5,388)	240,489	(1,600,560)	(1,600,560)	1,841,049
Other financing sources, net	59,252	43,615	102,867	12,000	12,000	90,867
Excess(deficiency) of revenues and other financing sources over(under) expenditures	310,396	38,227	343,356	(1,588,560)	(1,588,560)	1,931,916
Balances beginning of year	568,436	22,409	590,845	1,593,538	1,593,538	(1,002,693)
Balances end of year	\$ 878,832	60,636	934,201	4,978	4,978	929,223

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

BAXTER COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2007, expenditures in the support services function exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

BAXTER COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2007

	Nonmajor Special Revenue Funds			
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds
ASSETS				
Cash and pooled investments	\$ 751	51,153	13,300	65,204
Receivables:				
Property tax:				
Delinquent	1,129	0	583	1,712
Succeeding year property tax	110,000	0	24,556	134,556
Income surtax	0	0	21,267	21,267
Accounts	0	1,218	0	1,218
TOTAL ASSETS	\$ 111,880	52,371	59,706	223,957
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 0	0	1,052	1,052
Deferred revenue:				
Succeeding year property tax	110,000	0	24,556	134,556
Income surtax	0	0	21,267	21,267
Total liabilities	110,000	0	46,875	156,875
Fund balances:				
Unreserved	1,880	52,371	12,831	67,082
	1,880	52,371	12,831	67,082
TOTAL LIABILITIES AND FUND BALANCES	\$ 111,880	52,371	59,706	223,957

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

BAXTER COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 YEAR ENDED JUNE 30, 2007

	Nonmajor Special Revenue Funds			
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds
REVENUES:				
Local sources:				
Local tax	\$ 96,238	0	71,168	167,406
Other	6,400	128,756	224	135,380
State sources	0	0	25	25
TOTAL REVENUES	102,638	128,756	71,417	302,811
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	31,071	0	0	31,071
Other instruction	0	153,916	0	153,916
Support services:				
Operation and maintenance of plant services	47,383	0	0	47,383
Transportation services	10,074	0	56,980	67,054
Other expenditures:				
Facilities acquisition	0	0	72,651	72,651
TOTAL EXPENDITURES	88,528	153,916	129,631	372,075
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	14,110	(25,160)	(58,214)	(69,264)
OTHER FINANCING SOURCES (USES):				
Proceeds from bus lease	0	0	56,980	56,980
Transfer in	0	1,259	0	1,259
Transfer out	0	0	(35,844)	(35,844)
TOTAL OTHER FINANCING SOURCES (USES)	0	1,259	21,136	22,395
Net change in fund balances	14,110	(23,901)	(37,078)	(46,869)
Fund balances beginning of year	(12,230)	76,272	49,909	113,951
Fund balances end of year	\$ 1,880	52,371	12,831	67,082

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

BAXTER COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues and Transfers	Expendi- tures	Balance End of Year
Drama	\$ (114)	2,567	1,868	585
Vocal music	8,666	3,604	1,363	10,907
Instrumental music	7,836	3,470	1,132	10,174
Swalwell athletic donation	4,751	1,927	773	5,905
Playground	18,664	2,448	21,112	0
Cheerleading	1,910	369	1	2,278
Drill team	165	1,183	1,139	209
Student council	1,549	5,129	3,367	3,311
Class of 2006	426	0	426	0
Class of 2007	1,074	3,705	4,779	0
Class of 2008	1,226	5,840	6,409	657
Class of 2009	71	10	0	81
Class of 2010	867	121	988	0
Athletics	4,899	8,932	7,667	6,164
Science club	994	289	865	418
Historian society	1	0	0	1
Honor society	231	32	111	152
SAAD	196	29	0	225
Weight club	30	0	0	30
Sixth grade	259	1,141	1,364	36
Fourth grade	30	1,248	1,278	0
Art club	624	88	0	712
Luther football	(408)	1,218	810	0
Interest	11,243	386	11,629	0
Annual	7,262	12,237	9,726	9,773
Special activities	3,010	4,302	0	7,312
CMB shared athletics	4,034	8,948	19,541	(6,559)
CMB boys basketball	2,384	7,254	9,638	0
CMB football	(7,568)	23,114	15,546	0
CMB baseball	(3,527)	10,447	6,920	0
CMB boys track	(421)	6,624	6,203	0
CMB wrestling	781	971	1,752	0
CMB girls basketball	1,782	1,777	3,559	0
CMB volleyball	3,025	2,017	5,042	0
CMB softball	1,616	560	2,176	0
CMB girls track	(1,423)	4,367	2,944	0
CMB soccer	1,623	1,697	3,320	0
Cross country	(1,496)	1,964	468	0
Total	\$ 76,272	130,015	153,916	52,371

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

BAXTER COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

		Modified Accrual Basis			
		Years Ended June 30,			
		2007	2006	2005	2004
Revenues:					
Local sources:					
Local tax	\$	1,538,509	1,407,863	1,254,508	1,264,146
Tuition		342,593	333,183	301,927	322,783
Other		611,037	303,030	1,005,798	141,647
Intermediate sources		5,267	0	0	0
State sources		1,778,228	1,695,082	1,495,322	1,414,577
Federal sources		258,869	510,090	103,111	99,220
Total	\$	4,534,503	4,249,248	4,160,666	3,242,373
Expenditures:					
Current:					
Instruction:					
Regular instruction	\$	1,374,303	1,305,718	1,301,060	1,218,443
Special instruction		312,220	203,249	184,931	224,890
Other instruction		425,547	342,909	359,441	302,734
Support services:					
Student services		131,502	83,375	78,838	74,863
Instructional staff services		115,979	122,060	112,324	102,358
Administration services		550,534	555,113	473,409	442,879
Operation and maintenance of plant services		436,435	348,217	289,695	271,323
Transportation services		226,416	155,952	145,956	137,455
Non-instructional programs		0	0	281	227
Other expenditures:					
Facilities acquisitions		149,120	3,567,484	902,055	18,494
Long-term debt:					
Principal		283,448	265,788	209,710	118,687
Interest and fiscal charges		166,341	160,663	170,417	94,936
AEA flow-through		111,514	103,006	92,979	91,946
Total	\$	4,283,359	7,213,534	4,321,096	3,099,235

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and
on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Education of the
Baxter Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Baxter Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 17, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Baxter Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Baxter Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Baxter Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Baxter Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Baxter Community School District's financial statements that is more than inconsequential will not be prevented or detected by Baxter Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Baxter Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-07 is a material weakness.

Compliance and Other Matters

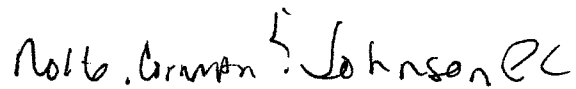
As part of obtaining reasonable assurance about whether Baxter Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Baxter Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Baxter Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Baxter Community School District and other parties to whom Baxter Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Baxter Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

March 17, 2008

BAXTER COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

- I-A-07 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One individual has control over data processing in general, receipt posting, investing, disbursement journalizing, payroll preparation and bank reconciling.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will continue to monitor controls and implement procedures when feasible.

Conclusion - Response accepted.

- I-B-07 Payroll Procedures - We noted during our audit that the District is not keeping track of hours worked for coaches who are non-certified staff.

Recommendation - In an effort to comply with the Department of Labor requirements on wage per hour contracts, the District should keep track of the hours worked for non-certified staff coaches. The District should also review its payroll procedures to ensure that supporting documentation is kept for all employees who receive checks.

Response - We are working on this.

Conclusion - Response accepted.

- I-C-07 Purchase Orders - We noted during our audit that the disbursements didn't utilize a purchase order correctly. We noted instances of purchase orders were not always approved properly. We also noted requisitions dated after the invoice date.

Recommendation - Better internal control is achieved when pre-numbered purchase orders are used and the sequence is monitored. The District should review the purchase order system in place. Purchase orders provide approval to order, therefore, pre-numbered purchase orders should be approved by the administrator before the ordering of supplies takes place.

Response - Coaches continue to be the worst offenders, but we continue to stress the need to follow proper procedures and the situation has improved.

Conclusion - Response accepted.

I-D-07 Sponsor Procedures - During our audit, concerns developed about sponsor procedures. Currently, some sponsors are not turning in supporting documentation for money collected from individuals, fundraising events and other revenue fees. It was also apparent that the sponsors were not turning in collected receipts to the central office for deposit in a timely manner. It appeared that some sponsors maintained the cash collection in their office/classroom until they had time to turn the funds into the office or until all the funds were collected. We noted that once collected at the office, these were handled in a comparable manner as receipts directly delivered to the office, where receipts are given and deposited. The copies of the receipts issued at the buildings are provided to the central office for posting and reconciling the bank statement. There does not appear to be controls in place to document monies collected and turned in from sponsors to be reconciled to the actual deposits.

The breakdown of control procedures for the receipting process becomes apparent as the sponsor maintains the collected revenue. The maintenance of the undeposited funds in the office/classroom provides a risk of loss due to possible theft, improper use or loss, as well as lack of reporting of the funds. The District is required to maintain records for the Student Activity Fund.

In addition, during our audit we noted invoices not being paid timely. This was due to the fact that the sponsor was receiving the invoice and not the central office.

Recommendation - The District actually maintains multiple layers of receipting from sponsors, to the building office, to the central office. When sponsors or fundraising chairpersons submit money to the office for previously collected receipts, they should provide documentation of their receipts. The District should take necessary steps to require all sponsors to turn in collected money on a timely basis with a detailed receipt or another form of detailed documentation. This detailed documentation should at a minimum include the individual that the sponsor received the money from, the purpose, the fund/organization/club that needs to be credited, the date and amount. The central office should receive invoices from vendor and not from sponsor subsequently after procedures have been circumvented.

Response - We believe you've made this sound much worse than it is. Rarely is there not documentation to support funds and rarely are funds left undeposited in a timely manner without being locked up. But we will work on this.

Conclusion - Response acknowledged. Invoices need to be paid timely to avoid late charges. In addition, receipting procedures for sponsors should be reviewed. Locked up in the office or classroom may not be an adequate place to store undeposited funds.

I-E-07 Reconciliation of Advertisements - We noted during our audit that the District sells yearbook advertisements. However, there is not a reconciliation of sponsor payments to the actual published advertisements in the yearbook.

Recommendation - The District should implement procedures to reconcile sponsor payments to advertisements for the yearbook prior to publishing the yearbook. In addition, the yearbook advisor should turn the reconciliation into the central office for review and verification by central office staff. The reconciliation should be available at the time of audit.

Response - We will implement a reconciliation procedure for the 2007-08 year.

Conclusion - Response accepted.

I-F-07 Gate Admissions - The gate admissions were not reconciled to pre-numbered tickets.

Recommendation - The District should establish reconciliation procedures for gate admissions. The reconciliation should include the issuance of pre-numbered tickets and the reconciling of the admissions to the number of tickets issued.

Response - We will comply.

Conclusion - Response accepted.

I-G-07 Supporting Documents for Payments with Credit Cards - Payments made with credit cards do not always have detailed supporting documentation.

Recommendation - The District has a policy in place for credit card usage. The users of the credit cards need to provide detailed receipts for purchases made. The District should review procedures in place to ensure the proper detailed documentation will be available with paid credit card statements.

Response - We will comply.

Conclusion - Response accepted.

I-H-07 District and Regional Rents - We noted during our audit that the district receives money for use of facilities when hosting district and regional events.

Recommendation - Chapter 297.9 of the code of Iowa requires rent to be receipted into the general fund. The district should receipt rent collected for facility usage into the general fund.

Response - We will comply.

Conclusion - Response accepted.

I-I-07 Grants - We noted during our audit, that when expenditures for specific projects were posted; it appeared that the expenses were not always properly posted to those projects.

Recommendation - The District should review the coding of bills, to ensure that all bills paid for a specific grant or project are properly coded. The project numbers may be obtained from the Uniform Financial Accounting for Iowa LEAs and AEAs. The proper coding also allows the district to maintain accountability of the grants by matching the revenues to the expenditures.

Response - This will be cross referenced more closely.

Conclusion - Response accepted.

I-J-07 Employee Purchases - We noted during our audit of the School Nutrition Fund that employees made personal purchases. These personal purchases were shown on the invoices received by the District from the vendor. When the District paid these bills, the check would be written for the invoice amount less personal checks from employees to the vendor.

Recommendation - The District should encourage employees to refrain from purchasing items through the school vendors. The vendors should bill the employees separately and should not be included on the District invoices. The checks written from the District

should match to the invoices provided by the vender. The District should review procedures in place in regards to employees making personal purchases.

Response - Employees have been instructed to no longer make personal purchases on school accounts.

Conclusion - Response accepted.

BAXTER COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-07 Certified Budget - District disbursements for the year ended June 30, 2007 exceeded the amount budgeted in the support services function.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - We will amend the budget if necessary in the future.

Conclusion - Response accepted.

- II-B-07 Questionable Disbursements - We noted disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-07 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

- II-D-07 Business Transactions - No business transactions between the District and District officials were noted.

- II-E-07 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- II-F-07 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

- II-G-07 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of students which were open enrolled out was overstated by one student.

Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response - We will contact the Iowa Department of Education and the Department of Management.

Conclusion - Response accepted.

- II-H-07 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

- II-I-07 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.

- II-J-07 Financial Condition - The District had a deficit fund balance of \$31,947 in the Debt Service Fund. We also noted during our audit one deficit account balance in the Special Revenue, Student Activity Fund.

Recommendation - The District should continue to monitor these funds and investigate alternatives to eliminate the deficits.

Response - The District will monitor these funds and investigate alternatives to eliminate the deficits.

Conclusion - Response accepted.